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SUBJECT: NEW FRONTIERS NEXT DOOR: GROWING ECONOMIC LINKS
BETWEEN COLOMBIA AND BRAZIL

¶1. SUMMARY: The U.S. accounts for 70% of Colombia's export market, and the Andean region, especially Venezuela, accounts for almost all of the remaining 30%. With a marked drop in U.S. consumer demand and increased difficulty in receiving payment for exports to Venezuela, Colombia is looking to diversify its economic links world-wide. Brazil is at the center of its regional trade and investment ambitions. Despite Colombia's negative trade balance with Brazil and the fact that the two countries produce many of the same goods, Colombia is focused on increasing exports to Brazil in certain niche markets like auto parts and specialty clothing, and attracting Brazilian direct investment. Because of its established trade links north-ward, Colombia hopes to attract Brazilian companies who see Colombia as a platform for distribution to the U.S. and world-wide. Oft timid about reaching beyond markets where they are comfortable and established, Colombian business should not miss the opportunities presented by the huge market next door. END SUMMARY.

Existing Agreements and Current Trade Imbalance
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¶2. In 2008 Colombia's negative trade balance with Brazil stood at USD $1.6 billion, up from USD $369 million ten years earlier. As part of the Latin American Integration Association (ALADI), until recently Colombia and Brazil had only half-heartedly promoted bilateral trade and investment, preferring to focus on U.S. and European markets. The two countries signed a Complementation Agreement in 2004 (CAN-Mercosur Number 59), which further smoothed their commercial ties. In 2007 they penned a memorandum of understanding (MOU) to promote Colombian exports to Brazil. The result of these efforts, along with domestic policy changes to loosen protectionist policies, has been a surge in cross-border trade. From 2006 to 2008, imports from Brazil increased by almost 25% (up from USD 1.8 billion in 2006 to USD 2.2 billion in 2008), and exports to Brazil were up 250% (from USD 185 million in 2006 to USD 641 million in 2008). Brazilian direct investment in Colombia increased 5-fold over the same two year period. Petrochemicals and palm oil stand out as Colombia's largest exports to Brazil (totaling almost USD 270 million in 2008), while machinery, iron and steel (USD $515 million in 2008 and USD $211 million in 2008, respectively) are Colombia's largest imports from Brazil. Brazil now stands as Colombia's fourth largest trading partner, behind the U.S., Venezuela and China.

Focus on Niche Markets, FDI and Exchange of Expertise
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¶3. The fact that both countries produce many of the same goods for export has historically blunted Colombia's interest

in the Brazilian market. Since Colombia cannot compete in terms of quantity, the focus is on quality. Carlos Rivera of ANALDEX (Export Association) highlighted niche markets in auto parts, specialty textiles, clothing, paper products, tobacco products and specialty food products as the most promising. Francisco Solano, Director of the Colombo-Brazilian Chamber of Commerce told us that Colombian companies have also expressed interest in tapping the Brazilian market in sectors like dairy products and pharmaceuticals. He cited several Colombian companies that have already begun operating in Brazil, including ISA (Interconexion Electrica S.A), which operates electrical distribution in Sao Paolo, Manuelita Sugar and Carvajal Paper Products.

¶4. Attracting Brazilian FDI is a priority and growth area for Colombia. Solano believes Colombia can learn from Brazil's experience in building its infrastructure and in developing industries like agriculture, energy and biofuels. He cited investment by PetroBras, Vale do Rio Doce (coal), and Diaco (iron and steel) as examples of Brazilian companies importing technology and expertise though investment. Bernardo Naranjo of the National Business Association (ANDI) referenced intra-company cooperation by multi-nationals, citing Michelin Colombia and Michelin Brazil's exchanges of goods and employees. Although no formal investment treaty exists between the countries (the Ministry of Trade claimed the Brazilian government would not allow such a treaty), Yaylee Rangel, who handles Mercosur issues at the Ministry, told us Colombia is hopeful about Brazilian companies using its shores as a platform for exports to the U.S. and elsewhere,

especially in the Colombia-U.S. FTA is approved. With a stronger link to the U.S. market, goods like shoes and other textiles could be produced by Brazilian companies in Colombia for export to the U.S.

Buy Latin-American, Tentatively

¶4. With the great majority of its export eggs in the U.S. and Venezuelan baskets, Colombia has been scrambling to diversify trade links. Brazil, a substantial market in Colombia's neighborhood, is a logical place to start. Edith Andrade, Brazil desk officer at the Ministry of Foreign Affairs pointed to increased Brazilian imports from Colombia as part of President Lula's efforts to "buy Latin American." Issues such as relatively high transport costs (despite the physical proximity) and an obvious language barrier still hinder trade between the two countries, but improving transport links appears to be on Brazil's radar. In June, 2008, President Lula announced plans to invest USD 650 million on a railroad to transport 10 million tons of coal a year from the coal mining region of Boyaca to the Caribbean coast. While this project is not on Colombia's current list of critical infrastructure projects for the short term, it shows Brazil's long-term interest in trade and investment with Colombia.

¶5. Comment: The Colombian business community has been regularly criticized for its conservative approach to expanding markets; Colombians tend to flock to where they traditionally have been successful, e.g. the U.S. and Andean neighbors, and are fearful of new territories (e.g. China, Russia, Brazil) where long-standing ties are lacking. But the economic crisis in the U.S. and changing political climate in Venezuela have revealed vulnerabilities in concentrating their export base, and the GOC has made concerted efforts to open new markets. Brazil, so near physically but very far in other respects, is a logical target market, one which Colombia is just now beginning to explore effectively. End Comment.